

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

| | | | |
|--------------------------------|------------------------|--|-----------|
| Point of Contact: | Melanie L. Cooley, EVP | RSSD: (For Bank Holding Companies) | 3640041 |
| UST Sequence Number: | 1209 | Docket Number: (For Thrift Holding Companies) | |
| CPP/CDCI Funds Received: | 3,422,000 | FDIC Certificate Number: (For Depository Institutions) | 35245 |
| CPP/CDCI Funds Repaid to Date: | | Credit Union Charter Number: (For Credit Unions) | |
| Date Funded (first funding): | June 26, 2009 | City: | Cordova |
| Date Repaid ¹ : | N/A | State: | Tennessee |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

In 2011, \$600,000 was contributed to bank capital, from the bank holding company, to ensure financial strength and lending capacity. Also, \$500,000 was contributed to the bank holding company from the proceeds of a stock sale.

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Total loans decreased from YE 2010 to YE 2011 due to payoffs and the processing of problem loans. However, the bank continues to be successful in modifying the loan portfolio mix from its traditional market residential real estate to small business, commercial and owner occupied real estate.

☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

☒ **Increase reserves for non-performing assets.**

1/31/2011 ALLL was \$3.714M or 3.85% of the loan portfolio. At 12/31/2011 ALLL was \$2.257M or 2.46% of the portfolio. Additional provision for 2011 was \$94,996.44. The large reduction in ALLL throughout 2011 is primarily due to \$1.510M in net charge-offs, as problem loans were processed.

☐ **Reduce borrowings.**

☒ **Increase charge-offs.**

12/31/2011 net charge-offs totaled \$1,510,319 (1.65%) compared to 12/31/2010 net charge-offs of \$656,894 (.68%) and 12/31/2009 net charge-offs of \$862,000 (.80%).

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

\$600,000 was contributed to bank capital in 2011 from the holding company. At 12/31/2011 \$198,230.38 was held in cash at the holding company level to service debt and expenses.

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The CPP funds are directly related to the bank's ability to maintain well capitalized status and continue its lending programs. More specifically, the bank has been successful in its efforts to redirect the loan portfolio from 1-4 family construction loans, residential lot loans and residential development loan to commercial and industrial loans and small business loans with a focus on SBA loans, credit lines, equipment loans and owner-occupied real estate loans. To this end, the bank has been able to shift the real estate risk in the loan portfolio and is in compliance with the interagency regulatory CRE guidelines of 100%/300% at 12/31/2011. At 12/31/2011 CRE ratios were 97%/201% compared to CRE ratios of 133%/232% at 12/31/2010 and 171%/277% at 12/31/2010. Portfolio Mix by Call Report Categories (%)

| 12/31/2011 | 12/31/2010 | Construction | | | 12.5% | 15.8% |
|----------------|------------|------------------|-------|--------------|-------|-------|
| 1-4 family res | | 30.8% | 29.4% | multi family | | |
| 1.6% | 1.4% | non farm non res | | 32.6% | 31.9% | |
| owner-occupied | | 20.7% | 21.6% | C&I | | |
| 19.5% | 18.6% | Consumer | | 2.8% | 2.9% | |

The CPP funds are also directly related to the bank's ability to maintain adequate capital ratios, work with problem loan customers in re-structuring debt to align with current cash flow and fund new loans. Capital Ratios Tier 1 Leverage 8.56% 7.83% Tier 1 Risk Based 11.47% 10.39%

| | | | | | | |
|------------------|---------|----------------------|-----------------------------|---------------------------|---------|----------|
| Total Risk Based | 12.74% | 11.67% | 2011 Loan fundings/paid out | New consumer loans | \$1.97M | Paid out |
| Consumer loans | \$1.33M | New Commercial Loans | \$9.73M | Paid out Commercial Loans | \$6.16M | |

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

CPP funds enabled the bank to hire and retain a very experienced senior lender to manage the lending staff on a day-to-day basis. The senior lender is charged with building a small business lending program with less focus on the bank's historical market real estate focus. The small business lending focus continues to be successful in 2011 as the bank is in compliance with the interagency CRE guidelines at 12/31/2011. CPP funds enabled the bank to redirect and retain existing very experienced personnel in the area of special assets, credit administration and compliance. This area of the bank continues to be charged with managing the workout of problem loans, other real estate owned and other repossessed assets. The bank acknowledges that the current environment has created an on-going need for experienced personnel to manage these issues and processes. To that end, the bank continues to devote substantial resources to this area to ensure the best possible results for the bank. Also, CPP funds enabled the bank to expend the hard cost required to manage/carry problem assets, other real estate owned and other repossessed assets (other loan and collection expense) to ensure the best possible results for the bank. The "other loan and collection" continues to be a substantial portion of the bank's budget.

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.